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## How soon is now? - the drive to exploit opportunities in post-reform China

Your company has quality products, and you can devise market entry strategies. China tops your list of new targets, and speed is all important. You want it now. But it's not that simple: that is the lesson that companies are learning from their early experiences in entering the world's largest healthcare market in waiting.

The pharma market in China is growing at 20% per year, and is on course to become the world's third-largest by 2011. Meanwhile, the \$8bn medical technology market is not far behind, expanding at 14-17%, according to the latest information from the Chinese State Food and Drug Administration (SFDA).

Companies inside and outside China who want a share of what's going on had their appetites whetted further in spring when the health ministry launched its long-awaited plan to improve basic healthcare and provide universal insurance coverage for the country's 1.3 billion population.

Announced on April 6th, the far-reaching plan has been generally acclaimed. One major US healthcare group told *Scrip* this month that it was "very excited" about the reform, even if its products are not yet reimbursed in China.

A US lobby group interviewed by *Scrip* recently took the view that any investment in healthcare in China has to be a good thing. People are demanding better healthcare on the back of 9-10% GDP growth per year in the last decade.

The pharma industry has shown concern at the plan to cut the official list of reimbursable drugs to 300 from the current 2,000. But the ministry say this will yield cost savings, tighten up prescribing practices and reduce corrupt practices.

It will also surely weed out many of the country's pharma companies - an imponderable 4,300.

This ambitious plan also promises to fund an extensive county, township and village hospital building plan, 1.87 million more healthcare staff and their training, and health insurance coverage for 90% of the population by 2011. A lot of work to do, and all funded by a huge \$125bn investment in the first three years.

### So much for the prologue...

But two months on, it has gone a little quiet. Should we be worried? Not yet, but companies are certainly eager to know more.

"China is going to be the market of the future, but it's a complicated one for all potential entrants, especially pharma businesses," says Sigal Weisswasser, managing director of TBN group, Israel's leading biomedical industry development firm.

Speaking to *Scrip* during this month's EuroMedtech 2009 ("Partnering for innovation"), Ms Weisswasser, whose company is based in Rosh Ha'ayin, said that foreign companies need to understand the mentality in China, and that the government tends to protect local companies.

In the OTC sector, generics are selling there successfully already, so it is hard for new foreign entrants to compete.

Businesses that once regarded China as a secondary market, now, all of a sudden, can see the potential unlocking before their eyes. The temptation is to dive in. But that is not advised.

"The US model won't work in China," Ms Weisswasser warns. "You need a local sales force, and they need to be trained. And you need more than just one or two products," she says.

Chinese companies may be happy with just a 10% profit; it's a different mentality. Foreign companies need to adjust to that.

### Not happening yet?

The consensus is that the potential is there for pharma spending, but for many companies, "it's still not happening".

For medtech, the situation is not so complicated, but it's not happening there either. "CT and MRI are impressive technologies, but the Chinese won't buy them because they can't afford them."

Doctors are expected to adjust only slowly to the new situation, and it is becoming clear that the expectations of technology vendors in China may not be fully realised for perhaps 10 years - coincidentally, the length of the planned reform.

In addition, 1.3 billion is the population, not the approachable market. Some believe the actual market to be the 150 million "consuming Chinese".

But to get an idea of the true market size, healthcare companies need to talk to local distributors.

In a land where email, for instance, is still not yet the universal communication tool of businesses, a local distributor may value a market at, say, 1,000-2,000 units only.

"If the distributor says that, he's right," says Ms Weisswasser.

### Start slowly, adjust, think ahead

The strategy for China has to be: start slowly and adjust. Healthcare product companies cannot, say, set a two-year plan and expect to stick to it resolutely: delays will occur and the system inevitably will change, making life difficult.

"This can lead to burn-out of companies," says Ms Weisswasser. Businesses have to bear this in mind, and think out their strategies in advance, or they will fail.

Elsewhere, the culture is different to the extent that letters of intent carry no real weight; the best recourse is to employ a legal company or a local consultant in China.

Right now, the big task is digesting the reforms and what they mean. The public has read that there will be 90% insurance coverage in three years' time, but what does that really mean in practice?

Can local people – accustomed by now to false dawns in this new market economy – trust the government?

Many will remember the SARS panic in 2003, and the government's promise then to introduce healthcare reforms. Most also remember the headlong rush to embrace free market concepts in the 1980s, and the ensuing disappointment when this proved to be too much, too soon.

"There are pockets of belief and disbelief in the current reforms. Many people say they have been promised much in the past, and wonder if the Chinese economy can afford such a seemingly ambitious plan as

universal medical insurance coverage."

Pharma companies are not happy at the reimbursement list being cut. Products on this list will be low or reasonable cost, which is good for patients - if not for foreign companies. The latter will increasingly have to prove the value of their products over the long-term.

Businesses are also advised to co-operate with local authorities and commercial entities, and be willing to invest locally, for example by opening a subsidiary, embarking on a joint venture or increasing spending on local R&D.

### Patience on a different timeframe

"You have to learn how to be patient; the timeframe is different. Plan for the long term, and above all, have adequate funding. If you don't have that, don't go to China," Ms Weisswasser advises.

The best partner to have is a local partner. "Join forces with them. Get their support and ensure they know that you trust them," she says.

"If you earn that trust, the sky's the limit."

The market potential is high in China, but success will take time. Lessons will be learned from the pilot phases of reform that are due to start in several provinces.

The benefits are not going to be immediately realisable.

Ms Weisswasser stresses the following valuable hints: "As to mentality, foreign companies need to be ready to 'give', and not to assume that they will immediately 'get.'" She adds: "In fact, be ready to give more, more, more."

"As the saying goes, it takes two to tango, but in China, even more so!"

by Ashley Yeo, principal analyst,

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